

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Shasta Community Health Center, "SCHC" 1035 Placer Street, Redding, CA 96001</p> <p>Project Site: 4215 Front Street, Shasta Lake, CA, Shasta County</p> <p>Facility Type: Community Clinic</p> <p>Prior HELP II Borrower: No</p>	<p>Amount Requested: \$750,000</p> <p>Requested Loan Term: 15 years</p> <p>Date Requested: April 30, 2009</p> <p>Resolution Number: HII-237</p>
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Background: SCHC was formed in 1988 as a state licensed Community Clinic in Shasta County, California. SCHC became a Federally Qualified Health Center under Section 330 of the Public Health Service Act in 1997 and has since added rural satellite clinics in the cities of Anderson, Happy Valley and Shasta Lake. In 1997, SCHC opened its Dental Program in concert with the Shasta College Dental Hygiene Training Program and added a second dental site, SCHC Anderson Medical Clinic. This loan will be used to fund the remodeling of a dental facility at the Shasta Lake Family Health Center in 2009. SCHC is the largest primary care facility for the low-income population of Shasta County. Over 70% of those served by SCHC in 2007 had incomes below 200% of Federal Poverty Level.

Uses of Loan Proceeds: Loan proceeds will be used to remodel an existing dental facility in the city of Shasta Lake.

Financing Structure

- 15-year fixed rate loan.
- 180 equal monthly payments of approximately \$5,179 (yearly payments of about \$62,148).
- First (1st) lien position on the property located at: 4215 Front Street, City of Shasta Lake, CA.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 37.50%).
- Corporate Gross revenue pledge.

Financial Overview: SCHC's income statements appear to exhibit positive operating income during FY 2008. A loss was recorded in FY 2007 due to the implementation of a new EMR system and one-time litigation costs. SCHC's financial strength appears sound with good liquidity of approximately \$2.7 million in cash and \$16.1 million in total net assets.

Sources of Funds

Uses of Funds

HELP II Loan	\$750,000	Remodeling	\$650,000
Borrower funds	<u>161,375</u>	Equipment	250,000
Total Sources	<u>\$911,375</u>	Financing costs	<u>11,375</u>
		Total Uses	<u>\$911,375</u>

Legal Review: Although disclosures were made by the applicant, the information provided does not appear to detrimentally affect the financial viability or legal integrity of the applicant.

Staff Recommendation: Staff recommends approval of a HELP II loan for Shasta Community Health Center in an amount not to exceed \$750,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

April 30, 2009

Shasta Community Health Center (“SCHC”)

Resolution Number: HII-237

I. PURPOSE OF FINANCING

***Remodel existing facility*..... \$ 650,000**

In October 2006, with the assistance of the city of Shasta Lake and CHFPA’s Community Clinic Grant Program, SCHC completed a 10,500 square foot building that houses a primary care clinic, a retail pharmacy and space leased to the Public Health Department of the County of Shasta. SCHC intends to remodel 2,500 square feet of that building which was originally set aside to build a dental facility, to install five dental operatories, as well as clinical and administrative space. This property is located at 4215 Front Street, Shasta Lake, CA, Shasta County. The project is scheduled for completion by the fall of 2009.

The facility will provide for one full-time dentist, a dental hygienist and a dental resident. The facility will be the only dental clinic in this region dedicated to low-income and special needs patients.

The proposed HELP II loan will be in the 1st lien position on the property located at 4215 Front Street, City of Shasta Lake, CA, Shasta County. SCHC estimates the projected value of the building to be approximately \$2 million, providing a loan to value ratio of 37.50%. CHFPA will require a full appraisal of the property as a condition of closing.

***Purchase Equipment*..... 250,000**

SCHC intends to purchase dental equipment for the newly remodeled facility. The equipments includes, among other things, operatory equipment, lights, x-ray equipment, sterilization and communication equipment.

***Financing Costs* 11,375**

Authority Fees..... 9,375
Title fees..... 2,000

***Total Uses of Funds* \$ 911,375**

II. FINANCIAL STATEMENTS AND ANALYSIS

Shasta Community Health Center

Statement of Activities

(Unrestricted)

	<u>For the Year Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues and Other Support:			
Revenue			
Net patient services rendered	\$ 17,595,268	\$ 13,795,453	\$ 14,473,419
Federal 330 grant revenue	1,958,752	1,947,082	1,948,826
Interest income	50,184	147,354	132,628
Other	354,054	752,245	250,781
Total revenue	<u>19,958,258</u>	<u>16,642,134</u>	<u>16,805,654</u>
Support			
Grants, contracts and contributions	1,148,682	1,260,817	2,397,434
Contributions, in-kind	1,652,092	268,984	624,728
Total support	<u>2,800,774</u>	<u>1,529,801</u>	<u>3,022,162</u>
Net Assets Released from Restrictions	<u>2,321,366</u>	<u>876,151</u>	<u>1,265,823</u>
Total revenues and other supports	<u>25,080,398</u>	<u>19,048,086</u>	<u>21,093,639</u>
Expenses:			
Salaries and wages	12,486,770	12,272,126	11,050,023
Payroll taxes	933,974	908,670	806,911
Worker's comp insurance	236,680	301,532	450,836
Recruitment and retention	62,220	92,000	135,368
Continuing education	258,466	219,850	124,265
Fringe benefits	1,926,166	1,668,207	901,631
Purchased services	728,569	1,029,377	1,747,008
Supplies and other	3,417,017	2,014,251	2,778,710
Building and occupancy	1,012,139	868,166	574,358
Depreciation and amortization	765,463	633,086	594,946
Loss on retirement of medical equipment	-	33,240	82,585
Litigations, claims or assessment	-	1,050,000	-
Total expenses	<u>21,827,464</u>	<u>21,090,505</u>	<u>19,246,641</u>
Change in unrestricted net assets	3,252,934	(2,042,419)	1,846,998
Unrestricted net assets, beginning of year	12,509,277	14,551,696	12,704,698
Unrestricted net assets, end of year	<u>\$ 15,040,837</u>	<u>\$ 12,509,277</u>	<u>\$ 14,551,696</u>

Shasta Community Health Center

Financial Position

	As of December 31,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS:			
Current assets:			
Cash and Cash Equivalents	\$ 2,802,081	\$ 4,165,237	\$ 3,513,008
Certificate of deposit	-	562,513	1,604,368
Patient accounts receivable, net of allowance	1,316,992	1,205,118	1,129,646
Estimated amounts due from third-party payers	1,624,394	425,533	293,325
Grants and contracts receivable	232,144	539,823	268,499
Other receivables	19,179	29,724	127,003
Supplies	113,466	70,100	30,940
Prepaid expenses and other	107,518	100,421	171,494
Total current assets	<u>6,215,774</u>	<u>7,098,469</u>	<u>7,138,283</u>
Long-term assets			
Certificate of deposit	-	-	534,288
Cash restricted for purchase of facility construction and equipment	23,533	1,297,693	202,715
Promises to give restricted for construction	427,922	565,971	1,741,985
Estimated Medi-Cal settlements - long term	647,182	-	-
Property and equipment, net of accumulated depreciation	11,473,424	10,007,384	9,528,345
Deposits	30,583	64,384	71,580
Deferred financing costs	5,000	6,930	2,719
Total noncurrent assets	<u>12,607,644</u>	<u>11,942,362</u>	<u>12,081,632</u>
 Total Assets	 <u>\$ 18,823,418</u>	 <u>\$ 19,040,831</u>	 <u>\$ 19,219,915</u>
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	\$ 324,348	\$ 596,330	\$ 481,367
Payroll and related expenses	733,860	1,039,284	923,457
Other accrued expenses	7,784	1,361,036	307,519
Deferred revenue	85,000	45,000	46,773
Current maturities of long-term debt	149,007	223,800	267,219
Refundable advance	-	11,274	-
Estimated self-insurance costs	279,700	282,357	277,000
Total current liabilities	<u>1,579,699</u>	<u>3,559,081</u>	<u>2,303,335</u>
Long-term liabilities			
Notes payable, less current portion	442,096	590,920	128,420
Deferred revenue	96,552	127,500	170,425
	<u>538,648</u>	<u>718,420</u>	<u>298,845</u>
Total liabilities	<u>2,118,347</u>	<u>4,277,501</u>	<u>2,602,180</u>
Net assets:			
Unrestricted	15,364,286	12,159,277	12,078,120
unrestricted-designated	350,000	350,000	2,473,576
Temporarily restricted	990,785	2,254,053	2,066,039
TOTAL NET ASSETS	<u>16,705,071</u>	<u>14,763,330</u>	<u>16,617,735</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 18,823,418</u>	 <u>\$ 19,040,831</u>	 <u>\$ 19,219,915</u>

Financial Ratios:

**Proforma (a)
FYE Dec, 2008**

Debt service coverage (x)	5.59	6.12	0.39	4.06
Debt/Unrestricted Net Assets (x)	0.09	0.04	0.07	0.03
Margin (%)		12.97	10.72	8.76
Current Ratio (x)		3.93	3.12	3.05

(a) Recalculates 2008 audited results to include the impact of this proposed financing.

Financial Discussion:

SCHC's income statements appear to exhibit positive operating income during FY 2008. A loss was recorded in FY 2007 due to the implementation of a new EMR system and one-time litigation costs.

In FY 2008, according to SCHC management, staff became more familiar with the EMR system that was implemented in 2007, thus increasing productivity. SCHC's 2008 unaudited income statement exhibited a 19% increase in revenues and a decrease of 5% for expenses. Additionally, SCHC's utilization data shows a 6.5% increase in the number of patients who received care as well as 19% increase in the number of visits. SCHC's management also indicated receipt of a "scope change" from Medi-Cal services in 2008, resulting in a higher patient reimbursement rate, thereby further increasing revenues.

SCHC recorded a loss in FY 2007 as a result of the implementation of an Electronic Medical Records (EMR) system, causing a reduction in patient visits, thereby decreasing total revenues. SCHC attributed this loss to the implementation stage of the EMR system, which required protracted first time patient visits to build the database, as well as maintaining a second set of backup records; thus decreasing clinicians productivity.

SCHC operated its programs profitably during FY 2006.

Important Facts to Note:

- In FY 2008 Grants, Contracts and Contributions have decreased sharply since FY 2006 as SCHC used these funds to build and equip the Shasta Lake Facility.
- In December 2007, SCHC reached a \$1.05 million settlement agreement with the U.S. Department of Justice to adjust for prior Medi-Cal overestimated expense claims for the years 1993 through 1999, and for 2001. SCHC's management states that the clinic decided to settle only to "avoid the delay, uncertainty, inconvenience and expense of protracted litigation". SCHC made a final payment in January of 2008.
- In FY 2007, SCHC installed and implemented an EMR system, incurring more than \$1.1 million in expenses. The implantation phase, coupled with the learning curve, resulted in a temporary decline in patient visits, thus reducing patient services revenues. The FY 2008 income statement shows patient services revert to its prior growth trend as the learning curve flattened and productivity improved.
- Fringe Benefits have been increasing since FY 2006 because SCHC is partially self-insured in terms of health insurance.

SCHC's balance sheet appears to be solid with approximately \$2.7 million in cash, \$16.1 million in total net unrestricted net assets and minimal long-term debt.

SCHC appears to have maintained a solid balance sheet while continuing to expand and invest capital in improvement projects, including two new buildings and implementation of a new EMR system.

The balance sheet indicates moderate debt levels and very low long-term debt to unrestricted net asset ratio of 0.04x. In FY 2008, the debt service coverage ratio was a solid 6.12x. The proforma debt service ratio yields a solid 5.59x, indicating their ability to repay the proposed HELP II loan.

For FY 2008, SCHC's management indicated that revenues continued to increase with the new EMR system while expenses actually declined, supporting their explanation of the one-time loss in FY 2007. SCHC's very strong cash position, minimal long-term debt and improved performance during FY 2008 reduce the overall risk profile of SCHC.

Important Facts to Note:

- In FY 2008, estimated amounts due from third-party payers have increased by more than \$1 million due to delayed payment from government.

III. UTILIZATION STATISTICS

**Clients Served/(Patient Visits)
Fiscal Year Ended December 31**

	2005	2006	2007	2008
Totals	1,674/(6,320)	1,748/(6,419)	1,592/(5,843)	1,897/(6,221)

IV. ORGANIZATION

Background and Licensing

Shasta Community Health Center was formed in 1988 as a Community Clinic in Shasta County, California. Its mission has been to provide high quality primary and preventive health care to the medically underserved residents of this mostly rural portion of northern California. SCHC became a Federally Qualified Health Center under Section 330 of the Public Health Service Act in 1997 and has since added rural satellite clinics in the cities of Anderson, Happy Valley and Shasta Lake. In 1997, SCHC opened its dental program in concert with the Shasta College Dental Hygiene Training program and added a second dental site, SCHC Anderson Medical Clinic. A third dental service will be added to Shasta Lake Family Health Center in 2009.

In 2001, SCHC moved into a larger facility, increasing both its number of staff and patients. In 2008, it further expanded its main facility. Presently SCHC has over 30 primary care clinicians, approximately 26 part-time specialists providing care in 19 different specialty areas, and a total full-time staff of over 230 employees.

SCHC is also a multi-specialty medical provider, hosting primary care, medical, dental and specialty care services that draws low income and special needs residents from the adjacent five rural northern California counties. Additionally, SCHC provides mental health services and its clinicians deliver 100 low-risk infants a year.

SCHC is the largest primary care practice for the low-income population of Shasta County. Over 70% of those served in 2007 had incomes below 200% of Federal Poverty Level.

V. OUTSTANDING DEBT

<u>Date Issue:</u>	<u>Original Amount</u>	<u>Amount Outstanding as of 6/30/2008</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing Long-Term Debt:			
National Cooperative Bank, 12/2007	\$ 600,000	\$ 562,948	\$ 562,948
Cisco Systems, 04/2007	99,404	52,375	52,375
Proposed:			
CHFFA HELP II, 2009		N/A	750,000
Total Debt		\$ 615,323	\$ 1,365,323

VI. DUE DILIGENCE

Due diligence has been completed with regard to the following items:

- Savings Pass Through: SCHC has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): SCHC has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION

Staff recommends approval of a HELP II loan for Shasta Community Health Center in an amount not to exceed \$750,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.